The Power of Political Economy: How Political and Economic Institutions Together Trigger State's Development.

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Introduction:

When we analyze the factors that are responsible for a state's development, Economic Power comes at the forefront. Global Powers that are also named "First World Countries", have the highest rates as far as Gross National and Gross Domestic Product, are concerned. And it evolves around Economic Growth, without which technological and socio-cultural development, and military arsenals can be left for the day-dreamers.

Being a student of International Relations, a youth of this country, I observe that economic power is a wheel, and if this wheel is punctured, the journey of a state towards sustainability and prosperity, will be filled with hurdles. The basic objective of this paper is to emphasize the economic growth of the Islamic Republic of Pakistan, without which the country's overall development is impossible. And how this economic development can be achieved? When the political institutions, that are responsible to support the economic factors, determine the state's domestic policy or a foreign policy, or the most eminent; economic institution, in such an order to increase the exports of a country so as to achieve the balance of payments.

In this paper, I have given possible suggestions that can be beneficial for the resurgence of Pakistan's economy. The Basis of Unequal World:

We live in an unequal world. In rich countries, individuals are healthier, live longer, and are much better educated. They also have access to a range of amenities and options in life, from vacations to career paths that people in poor countries can only dream of. People in rich countries also drive on roads without potholes and enjoy toilets, electricity, and running water in their houses.

They also typically have governments that do not arbitrarily arrest or harass them; on the contrary, the governments provide services, including education, health care, roads, and law and order. Notable, too, is the fact that the citizens vote in elections and have some voice in the political direction their countries take.

The great differences in world inequality are evident to everyone, even to those in poor countries, though many lack access to television or the Internet. It is the perception and reality of these differences that drive people to cross the Rio Grande or the Mediterranean Sea illegally to have the chance to experience rich-country living standards and opportunities. This inequality doesn't just have consequences for the lives of individual people in poor countries; it also causes grievances and resentment, with huge political consequences.[1]

➢ ***Comparative Economic Policies:***

1. ***Political Economy of China:***

It seems that Napoleon was right – the world has been shaken by China's awakening. Although China engaged the United Nations (UN) in military conflict in Korea in the 1950s, has been a nuclear power since the 1960s, a permanent member of the United Nations Security Council since 1971 and was a key actor in Cold War politics, China's re-engagement with the global political economy has been a major reason why the world has been shaken into re-evaluating China's importance.

The Chinese economy is already the second biggest economy in the world using Purchasing Power Parity (PPP) calculations and is predicted to overtake the US in 2020 or 2041 or 2050 or sometime this century. China overtook the US as the single biggest recipient of non-stocks and shares Foreign Direct Investment (FDI) in 2002. China is the fourth largest trader in the world and has massive foreign currency reserves second only to Japan. The fact that China's trade surplus for 2005 was US$102 billion is remarkable – the fact that it tripled during the year even more so. Similarly, it's not just that foreign currency reserves at the start of 2006 were US$819 that generates international interest and much concern, but also that these reserves increased by a third during 2005.[2]

2. ***Political Economy of the United States of America:***

Bill Gates, like other legendary figures in the information technology industry (such as Paul Allen, Steve Ballmer, Steve Jobs, Larry Page, Sergey Brin, and Jeff Bezos), had immense talent and ambition. But he ultimately responded to incentives.
The economic institutions in the United States enabled these men to start companies with ease, without facing insurmountable barriers. Those institutions also made the financing of their projects feasible. The U.S. labour markets enabled them to hire qualified personnel, and the relatively competitive market environment enabled them to expand their companies and market their products.

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[1] Acemoglu, Daron; Robinson James, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (Newyork: Crown Publishers, 2012)
[2] Breslin, Shaun, *China and The Global Political Economy* (Newyork: Palgrave Macmillan, 2007)

While economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has. Ultimately the good economic institutions of the United States resulted from the political institutions that gradually emerged after 1619. Our theory for world inequality shows how political and economic institutions interact in causing poverty or prosperity, and how different parts of the world ended up with such different sets of institutions.[3]

Factors Responsible for Economic Growth: What should be Pakistan's strategy?

1) ***The Information Economy:***

Recent innovations in various forms of information technology have resulted in its vast utilization by both consumers and corporate enterprises. Because of the proliferation of IT throughout all sectors of the economy. Terminology such as the information age or the information economy has increasingly become common. The information economy involves the combination of "cutting-edge technology," ranging from laptops to fibre-optic and wireless communication. The underlying idea is that information technologies are inherently productive because they reduce costs by eliminating redundancies in capital and labour as well as saving on stocking of inventories. Corporate Enterprises invest large sums in this technology because it is viewed as a productivity-enhancing mechanism.[4]

2) ***Establishment of MNCs:***

Around the turn of the century, and especially after World War I, a relatively novel form of foreign direct investment arose: the establishment of overseas branch factories of manufacturing corporations. In its origin, the phenomenon was largely North American, and it remained so until the 1960s, when European, and then Japanese, manufacturers also began investing in productive facilities abroad.

These internationalized industrial firms were called multinational or transnational corporations or enterprises (MNCs/TNCs or MNEs/TNEs), usually defined as firms with production facilities in three or more countries.. By the late 1990s, there were some 53,000 MNCs in the world, with 450,000 foreign affiliates. Most are relatively small, but the top several hundred are so huge and so globe-straddling as to dominate major portions of the world economy. MNCs' foreign affiliates are worth about $3.5 trillion, and they produce goods worth $9.5 trillion every year. These foreign affiliates account for one-third of world exports and a very substantial proportion of world output. Indeed, the largest MNCs have annual sales larger than the gross national product (GNP) of all but a few of the world's nations.[5]

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[3] Acemoglu, Daron; Robinson, James, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (Newyork: Crown Publishers, 2012)

[4] Kudyba, Stephan; Diwan, Romesh, *Information Technology, Corporate Productivity, and The New Economy* (United States of America: Greenwood Publishing Group, Inc, 2002)

[5] Frieden, A Jeffry; Lake, A David, *International Political Economy: Perspectives on Global Power and Wealth* (San Diego: Bradford/ St.Martins, 2000)

3) ***The balance of Payments:***

A country's Balance of Payments reveals various aspects of a country's international economic position. It presents the international financial position of the country. It helps the government in taking decisions on monetary and fiscal policies on the one hand, and on external trade and payments issues on the other. In the case of a developing country, the balance of payments shows the extent of dependence of the country's economic development on the financial assistance by the developed countries.[6]

In a perfect scenario, the Balance of Payments (BoP) should be zero. That is, the money coming in and the money going out should balance out. But that doesn't happen in most cases. A country's BoP statement correctly indicates whether the country has a surplus or a deficit of funds. A BoP surplus indicates that a country's exports are more than its imports. A BoP deficit, on the other hand, indicates that a country's imports are more than exports. Both scenarios have short-term and long-term effects on the country's economy.[7]

Conclusion:

Economic institutions are the pillars that determine the overall position of a state in the Global World. Military power and Technological Power all can be achieved when a state is financially self-sufficient. Pakistan, whose economy relies heavily on agriculture, is observing a great downfall as far as the world's economic order is concerned. In order to compete with these technologically driven economies, Pakistan has to come out of only relying on its traditional ways and rather seek new ways for the trading.

The inequality of this world, the basis and the gap of 1st and 3rd world countries, are measured in terms of economic power. The giant military expenditures, the system of loans that is directly proportional to seeking influence can never be achieved if a state is fragile as far as its economy is concerned.

The establishment of MNCs, information economy and to reach the Balance of Payments is the eminent factors to reinvigorate Pakistan's economy and to get rid of financial crises.
If a country is politically as well as economically strong, the vicious cycle of "aid" can be left behind.

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[6] **Malhotra, Sam, "Importance of Balance of Payments." Shareyouressays.com.**

http://www.shareyouressays.com/knowledge/importance-of-balance-of-payments-for-a-country explained/112127

[7] **Toppr. "Balance of Payments." Toppr.com. https://www.toppr.com/guides/economics/open-economy-macroeconomics/balance-of-payments/**

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